

Securities and Exchange Commission Historical Society
Interview with Lewis Brothers - Addendum
Conducted on October 21, 2008, by Kenneth Durr

KD: Well, let's go ahead and start with Lyndon LaRouche then, and go back to the mid-80s.

LB: Okay. Lyndon LaRouche and his followers, representing the U.S. Labor Party, were successful on many occasions getting Mr. LaRouche on the presidential ballot.

KD: Right.

LB: He may have run several times, I'm not really sure. Much of the funding for this the organization came from the sale of promissory notes. The LaRouche followers would contact people in airports, like other groups - I can't remember their names.

KD: Right, the Moonies.

LB: The Moonies, yes. Similar to the Moonies. They would pass out information, obtain a name and address, and the individual would be sent literature on the Labor Party. Eventually, these people would be solicited for the sale of a promissory note. Law enforcement agencies, federal and state, became interested in these activities.

KD: Yes.

LB: I think you can find something on Lyndon LaRouche and the U.S. Labor Party.

KD: Oh yes. I remember him well.

LB: After months of investigation, the law enforcement agencies, federal and state, decided to execute a search warrant on the LaRouche compound, which happened to be located in Northern Virginia. During this time, they came to us because there was a question about the promissory notes falling within the definition of our Virginia Securities Law. We had been looking at LaRouche in our agency at the Securities Division of the Corporation Commission. I assigned one of our senior investigators, John Partham, over to the state police. John had a distinguished career in law enforcement, but more importantly for their purposes, he was also a very good forensic accountant. The state police and federal authorities executed a search warrant on the compound. John and some other accountants were basically responsible for reviewing the books and records after their seizure and developing the evidence necessary to prosecute Mr. LaRouche. Mr. LaRouche, I believe, was tried by the Federal Government either in New York or Boston on tax evasion or mail fraud, and he ended up receiving 15 years in prison. In Virginia, our Attorney General decided to proceed criminally against some of the LaRouche employees under the Virginia State Securities Act. In order to assist, we requested a

hearing before the Corporation Commission. We asked the Commission to determine if the promissory notes were defined as securities in the Virginia Securities Act.

KD: Right.

LB: We brought the securities case, asking for a temporary injunction to halt the sale of the notes. The Commission basically determined that the notes were securities under the Virginia Securities Act. The Commission entered an injunction prohibiting further sale of the notes. The Attorney General charged the followers criminally under the state securities law. During our hearings, one of the Commissioners stated that this was a new and innovative case for the Commission. The LaRouche people seized on that statement in their defense. They believed it was a mitigating factor of whether or not their acts were willful or intentional. In just about every one of the criminal trials, I was a witness, either for the prosecution or defense because of that statement. I also testified for the prosecution relating to the findings of the Commission. Regarding my testimony for the defense, I would say the case may have been new and innovative for that one Commissioner, but the Commission had held that promissory notes were securities in many cases. I would also add that I had 20-plus years of experience in the securities regulatory business and there wasn't a shadow of a doubt in my mind that the promissory notes were not within the definition of a security under the Virginia Securities Act. Our Attorney General was successful in getting prison sentences for at least six of the LaRouche employees.

KD: Okay. And about the same time then, you were looking at another issue.

LB: Yes. About the same time, in the mid-80s, organized crime from the southwest moved into small coal mine operations in Virginia, Tennessee, West Virginia, Kentucky, Georgia, Alabama, Pennsylvania and other states. The organized crime m.o. would be to approach the owners of the small mines, suggest a contractual arrangement for mining the coal product, which required the owner to finance new equipment to meet the contracted volume of coal. The mine owner would pledge the mine as security for the equipment purchase with a loan from a company that was part of the organized crime family. Shortly after, the mining project would start, there would be unexpected delays by the contractor receiving the coal, which caused the mine owner to go into default on the equipment loan. The mine would then be taken over by the organized crime group. The new owner of the mine would approach a local trucking company indicating they needed someone to haul a tremendous volume of coal, which was more than the capacity of the trucking company's equipment.

There would be a loan arranged for the trucking company to buy more trucks from, again, a subsidiary of the organized crime group. The trucks would be purchased, and then there would be mining delays. The loan with the trucking company would go in default, and the group would end up taking over the trucks.

KD: Did anybody ever successfully turn down that new business from when the offer was made?

LB: Turn down the new business?

KD: Yes.

LB: Oh, I'm sure some did. But the ones that we were primarily interested in were the mine owners that entered into the loans and allowed the scheme to develop.

KD: Right.

LB: The trucks would be taken over by the loan company and turned over to the group. The trucks would mysteriously disappear, insurance claims would be filed, the identification plates would be destroyed, and the trucks would be moved and sold again in another state. In the final stage of the fraud, the mine was syndicated into interests of limited partnerships. These partnerships were sold to investors all over the United States.

At this time, there were several securities regulators who were really active in investigating this crime. They were Wayne Howell who was the commissioner in Georgia; Tom Krebs, who was the commissioner in Alabama; and Jim Strode, who was on the staff of the Kentucky Securities Division. These three individuals were primarily responsible for forming an organization which they called Leviticus. They derived its name, Leviticus, from the teachings of the book in the Bible. I believe, it was chapter six, versus one through seven, which talks about taking property from your neighbor by theft or extortion, which was the reason the organization received its name.

There are also other chapters in Leviticus that speak to the same teachings, specifically chapters 19 and 20. This group was primarily formed to share information with state law enforcement and state securities agencies on the investigations that were concentrating on mining frauds. The organizers were also successful in getting a grant from the Justice Department to carry out the operation. The Leviticus project lasted for probably six or seven years working the coal mine frauds. It eventually changed its name to the National White Collar Crime Center, and it still exists today. Its mission is to train and assist state law enforcement agencies in the prosecution of white collar crime. Virginia was a member of the Leviticus project and continues to be a member of the National White Collar Crime Center.

KD: And the idea was that people from the different states would get together and share information among themselves?

LB: That's exactly right. Leviticus would set up a meeting. The different law enforcement agencies would come in and make presentations on a particular investigation that they were doing. The organized crime group that was being investigated was a large operation with many corporations. The organizational chart of it would sometimes cover the wall in the meeting room.

KD: And what was the federal role in this?

LB: None.

KD: Yes? It was all states?

LB: It was all state prosecution, the insurance frauds, loan frauds and also the prosecution of the sales of limited partnerships. The district attorney in New York, Robert Morgenthau, was heavily involved with a lot of the southern states in these investigations. My role included being used in several states as an expert witness in the securities cases. You may want to consider interviewing the organizers of the Leviticus group. They have a much larger story to tell than I do.